1978 Manitoba Budget Address

Honourable Donald W. Craik
Minister of Finance

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Mr. Speaker:

At the opening of the First Ministers' Conference in Ottawa two months ago . . . the Premier of Manitoba spoke for a great many Canadians when he expressed deep concern about the directions our country has taken in recent years.

The problems he identified . . .

— a sluggish and faltering economy . . .

— growing divisions among regions, and among various groups in our society . . . and

— a widespread crisis of confidence in government . . .

. . . parallel exactly the situation which had developed in our Province before October 11th of last year.

On that day . . . the people of Manitoba endorsed the Progressive Conservative Party . . . with the largest mandate in the recent history of this Province.

It was a mandate for change . . . a mandate for economic recovery . . . a mandate for a strong, healthy private sector . . . and a mandate for responsive, accountable, common-sense government . . . and an end to needless, costly bureaucratic interference in the everyday lives of our citizens.

In the five and a half short months we have been in office, our new Administration has taken several important steps to fulfill the commitments we made during the election campaign last fall.

- We have reduced income taxes . . .
- We have abolished the succession duty and gift tax . . .
- We have repealed the Mineral Acreage Tax . . . , and
- We have introduced expenditure estimates with the lowest growth rate in Canada this year.

But . . . these are only a start.

The people of Manitoba knew, when they went to the polls on October 11th, that it would not be an easy task for a new Government to turn the economy around and to bring public spending under control. We have a long, difficult road ahead of us . . . and it is essential that no one pretend otherwise.

In a nutshell, it can be said that our challenge is not to restrict essential services for the people of Manitoba. **Our challenge is rather to first help build and maintain the economic base which will make these services possible.**

That challenge can be met . . . but not by government action alone. It must be matched by a renewed faith in abilities . . . by a recognition of opportunity, in both the private and corporate sense . . . by a recognition that we live in a geography that is unmatched in its variety of appeal, summer, fall, winter and spring . . . in a human environment, optimum in scale and challenge . . . in a mixed economy, generally not subject to wide fluctuations between either bullishness or sluggishness . . . in a province blessed with natural resources, which in the long term will provide stability and security, but not necessarily the vast wealth of some of our neighbours . . . and in a mosaic of cultures, all contributing to a richness of life in our rural, urban and northern communities.

In my first Budget, tonight, I want to spell out . . . as clearly and as simply as I can . . . the economic and financial problems which are now facing Manitoba, as well as the action our Government believes must be taken to restore a climate of confidence . . . and to clear the way for our Province to realize its true potential.

Budget Policy and Objectives

It is important to begin by defining what our Administration believes a budget should be . . . and, by extension . . . what the role of government should be, particularly at the provincial level.

First, we think a budget should present a realistic, straightforward statement of the Province's fiscal position and economic prospects. It should also contain a summary of the Government's immediate and longer-term objectives . . . and a description of policies and programs to achieve those goals.

In simple terms, it should be an honest report to the taxpayers of Manitoba . . . not a political manifesto, filled with worn-out theories, misleading statistics, meaningless comparisons, and promises which can't be fulfilled. In the past eight years, Manitoba has had precious little of the former and too much of the latter.

One of the principal reasons why so many people have lost confidence in public leaders . . . is that they haven't been told the plain facts about what governments can and cannot do.

In recent years, governments here in Manitoba and elsewhere in Canada have tried to do too much . . . they have built up false expectations . . . and have overextended themselves, in vain attempts to achieve goals which may be both impossible and undesirable.

The results . . . too much government . . . excessive spending . . . massive deficits . . . and onerous levels of taxation . . . probably, more than any other factors, explain the economic problems confronting our Province and our nation today.

One of our Administration's major objectives is to reverse these self-defeating trends by adopting a forthright and responsible attitude towards the role of government . . . and especially of a provincial government . . . in our society.

While we believe that there is an essential place for public sector action to create and maintain the proper climate for economic development and to provide a broad range of services . . . we also believe there are clear limits beyond which governments should not go.

The costly lessons of the last eight years have proved conclusively that government has a limited place in business . . . and should have a different, sometimes smaller role in other activities as well.

In future, if we don't think provincial action will help alleviate certain problems, we won't be afraid to say so . . . . and, when action appears possible . . . but when our financial resources are insufficient . . . we will also have to say so as well . . . no matter how much we would like to be able to assist.

That is our responsibility as guardians of the public treasury . . . and, it is about time that responsibility was exercised in Manitoba.

Mr. Speaker . . . the restoration of the principle of fiscal responsibility in the Government of Manitoba is the primary goal of this Budget.

Without a secure financial base, the future of every essential economic and social program will be in jeopardy.

Without sound financial management, there will be no flexibility to meet new priorities . . . and to deal with unforeseen problems which may, from time to time, demand immediate responses.

And, without genuine financial accountability, the widespread lack of consumer and investor confidence which has played such a large part in holding back our economic development will continue to undermine new initiatives.

Our commitment to the principle of fiscal responsibility is accompanied by a number of specific policy objectives . . . .

First — continuing restraints on government spending — to reduce the public sector's share of Gross Provincial Product over time and lessen its demands, in relative terms at least . . .

Second — greater efficiency in government programming — to ensure that improved and expanded services can be provided for those who require them . . .

Third — rationalization of taxation measures — to simplify our tax structure and make it more competitive, and . . .

Fourth — improved financial reporting — to ensure that the citizens of Manitoba have up-to-date, factual and understandable information about their Government's budgetary position.

I will deal with each of these objectives in more detail later in my Address.

As I will also explain later, the financial situation which we found when we took office has made it impossible for us to balance the budget this year. However, with improvement in the economy and in our revenue position, we believe a balanced budget is a realistic goal. Of course . . . much will depend not only on Manitoba's economic performance, but on Canada's as well . . .

Our objectives for the economy of Manitoba follow directly from the fiscal objectives I have just outlined.

A government which has its own activities under effective control . . . which levies taxes at reasonable and competitive levels . . . and which makes certain that the competitive market system functions with maximum efficiency . . . has provided an essential prerequisite for sustained expansion of the private sector . . . and more job opportunities for our people.

At their conference in February, all eleven First Ministers stated that they regarded "an expanding private sector as the major impetus for growth in the Canadian economy." While this affirmation of confidence is welcome . . . we believe all senior governments in Canada must back it up with the kind of budgetary policies our Administration has adopted . . . if the private sector is to provide the investment and the employment opportunities that our economy so badly needs.

A few days ago, the Premier read a quotation into the record which deserves repeating here. The quote was:

> *"We need to realize that there is a limit to the role and the function of government. Government cannot solve all of our problems, set all of our goals, or define our vision. Government cannot eliminate poverty, provide a bountiful economy, reduce inflation, save our cities, cure illiteracy, provide energy or mandate goodness.*

Only a true partnership between government and the people can hope to reach these goals. And those who govern can sometimes inspire, and we can identify needs and marshall resources. But we cannot be the managers of everything and everybody."

Those words were spoken by President Carter in his 1978 State of the Union Address. I commend them in particular to the Members opposite for careful consideration.

The Economy — 1977 and 1978

The recognition of the vital role of the private sector was one of the few major accomplishments at the First Ministers' Conference.

In our view, the other significant major developments were:

— the agreement by all senior governments to keep their rates of expenditure growth below the rates of growth of Gross National or Gross Provincial Product . . .

— the consensus that the level of total compensation paid to public employees should not lead the private sector . . .

— the decision to undertake a joint federal-provincial study aimed at rationalizing resource taxation to help revitalize the mining industry . . . , and

— the unanimous endorsement by all First Ministers of the suggestion put forward by the Premier of our Province for a high-priority review to reduce the economic cost of government regulations and red tape.

Naturally, we were disappointed that the federal government was unwilling to accept Manitoba's other suggestions . . . that the provinces be given a formal input in monetary policy decisions . . . and that improvements be made in the exchange of borrowing information among senior governments.

But . . . most disappointing of all was the federal government's inaction after the conference . . . its failure to match meaningful restraint with its rhetoric. In fact . . . within only a few weeks . . . it announced that its 1978/79 deficit was likely to increase to around $11 billion, and that its spending level would grow by almost 10% . . . only marginally below some of the overly-optimistic, and in our opinion unrealistically high, forecasts of the rate of growth of G.N.P.

Any positive effect that some of the agreements reached at the First Ministers' Conference might have had in helping to restore confidence in the economy, must have been all but wiped out by these two examples of lack of restraint at the federal level.

With the Canadian dollar at a post-depression low . . . with continuing balance of payments and international competitive problems . . . with unemployment over the one million mark for the first time since statistics have been compiled . . . with continuing serious inflationary pressures . . . with investment lagging, especially in essential fields such as manufacturing . . . and with consumer confidence so low that recent personal savings rates have been the highest recorded in the post-war period . . . it is obvious that a totally new approach is needed at the federal level to turn the economy around.

New federal policies are essential to complement those of our own Government, because, as the federal government itself has acknowledged: *"A strategy which returns the Canadian economy to more normal levels of output and employment would be the single most effective way of lessening the economic problems of any of the regions".* *

* Department of Finance, Government of Canada, "Canada's Economy — Medium-Term Projections and Targets" — February, 1978. Page 93.

Nor can we, as a province, be deterred from taking the action which the times demand merely because Ottawa chooses to turn its back on the fiscal realities of our nation today.

We have been working with the federal Department of Regional Economic Expansion to stimulate new initiatives in the areas of tourism and industrial development. Substantial progress has been made towards finalizing an industrial development agreement which we hope will provide a broad range of services to facilitate industrial growth — especially in high technology fields and manufacturing. However progress in finalizing a tourism agreement has been quite slow and our hopes for creating some productive job opportunities as early as this summer are now diminished. It is our hope that this agreement will be pursued and finalized at the earliest possible date. Because of the early employment creation possibilities, our own order of preference would have been to pursue a tourism agreement first.

Of course, tourism and manufacturing are not the only sectors of the provincial economy which require greater encouragement.

Overall, Manitoba's output growth was among the weakest in Canada last year. Our latest estimates indicate that Gross Provincial Product increased by only 8.3% to $8.6 billion in 1977. The estimated real growth rate is under 1% . . . well below the national average.

Our share of manufacturing employment is also well below the national average and it has dropped by 11% in the last three years.

Total unemployment averaged nearly 6% last year, and by this February, had reached 6.5% on a seasonally-adjusted basis, compared to 6.2% in February, 1977. The rate last year is worth noting in light of the "full employment" promise the previous government made in 1973 in their Party's so-called "Guidelines for the Seventies".

Although our Province continues to have the third lowest unemployment rate in Canada, and although the latest statistics indicated that there were many more Manitobans at work in February of 1978 than there were in the same month the year before, our Government is deeply concerned about the unemployment situation. Later in my Address, I will be announcing a special program aimed at providing productive private sector jobs for young Manitobans over the coming summer and early fall.

Despite these problems, current forecasts suggest that 1978 will be a year of modest recovery for the provincial economy. Although real growth is not likely to reach the Canadian average, it should be higher than in 1977.

We have already received some encouraging news in the form of the most recent Statistics Canada forecasts of new capital investment intentions. For 1978, the increase in private sector investment in Manitoba is expected to be higher than the national average and higher than last year. Although the forecast increase is only 6.5% — probably less than the rate of inflation — it is still significant in relative terms.

World price and market problems continued for the mining industry last year . . . particularly for nickel, copper, and zinc . . . and total mineral output value increased by less than the rate of inflation. However, there are indications of substantial strength for the longer term . . . and the climate for development in Manitoba is infinitely better than in the last eight years.

Although the value of agricultural output was up around 8% last year, farm cash receipts continued their pattern of decline which started in 1976.

Because of the overriding importance of the agricultural sector to our economy, we are naturally concerned about prospects for the year ahead. This subject, along with resource development and other economic matters affecting Western Canada, will be discussed at the 1978 Western Premiers' Conference in Yorkton at the end of this week. The agenda for that meeting will also include a review of prospects for western co-operation in the energy field — a subject of particular interest to Manitoba. With rising energy prices dictating major adjustments in the structure of the Canadian economy, cooperation among governments is essential to ensure that existing sources are utilized as effectively as possible. We are anticipating progress in the studies of the western portion of an interprovincial power grid.

The end of this week . . . April 14th . . . will also mark the beginning of the end of the Anti-Inflation Program. Along with other governments in Canada, our Administration has mixed feelings about the phasing out of the A.I.B. Although we felt that the program was necessary at the time it was introduced . . . we now believe that controls should be removed . . . and we are reasonably confident that their elimination will not contribute to a major upward acceleration in wages and prices.

Part of the reason for our optimism is the fact that all senior governments now seem to be committed to pursuing more responsible public sector compensation policies. The First Ministers' agreement that the level of total compensation paid to public employees should not lead the private sector is one which we believe . . . and I stress this point . . . should be followed by **all** responsible authorities . . . at **all** levels . . . including local governments, school divisions, Crown agencies, and organizations which obtain a significant portion of their funding from hard-earned tax dollars.

It is recognized that our economy is in a sluggish period. We in the public sector cannot afford to see excessive wage settlements, settlements that exceed our rate of growth in revenues. It is imperative that wage settlements not outstrip our revenue base and end up a permanent, ongoing burden.

We are asking that all those involved in public sector negotiations recognize that provincial revenues . . . and thus our ability to pay for increased costs, including wage settlements . . . will only grow by about 4% this year.

But . . . public sector action alone will not be enough to ensure that price and wage increases are kept at reasonable levels. It is imperative that the private sector cooperate fully as well. Restraint and responsibility will have to be demonstrated by wage-earners . . . the self-employed . . . and businesses, large and small . . . if long-term price stability is to be re-established . . . and if the reimposition of arbitrary controls is to be avoided in the future.

It will be all-too-tempting to consider even stronger controls if inflation gets out of hand again. And . . . if this happens . . . the basic system on which our country's economy has been built will be threatened as never before.

Because of over-regulation and interference, the market system has not had a fair chance to operate efficiently in recent years. It is essential that the private and public sectors work together to make certain that the forces of initiative and competition are encouraged, rather than stifled and choked off.

Year-end Financial Position — 1977/78

I want to turn now to the specific details of the Province's financial position at the

end of the 1977/78 fiscal year . . . and then go on to outline our budgetary proposals for 1978/79.

When our new Administration took office in late October, we requested an immediate report on actual expenditures and revenues for the six months ending September 30, 1977 . . . and on revised estimates for the balance of the fiscal year.

All Members are well aware of the results . . .

We found that the projected deficit on current account . . . $129 million . . . was more than five times larger than the amount estimated last spring. On a combined basis . . . including direct, budgetary capital . . . the year-end deficit was estimated at $225.1 million.

It should be noted that the capital spending projection released in November only included **committed** projects. Had we proceeded with expenditures for all the projects in process or planned, the total potential deficit would have been higher than the $225.1 million deficit by some $110 million, and could even have exceeded the legislative authority available.

Ten days before his government left office, the former Minister of Finance said the deficit was "definitely not double" the original estimate. Well, he was right in a way . . . it was a great deal more . . . in fact, five times more.

Faced with an unacceptable potential shortfall of this magnitude, we had no alternative but to implement stringent special restraint measures to make certain the situation did not get any worse . . . and, if possible . . . to improve it somewhat in the few months remaining before the end of the year.

Although the figures are not yet final, it is now clear that these measures did have a significant, positive impact.

- On the old current account basis, it appears likely that the 1977-78 deficit will be approximately $80 million . . . some $50 million less than the projection issued in November.
- Capital expenditures increased slightly . . . with the result that the combined deficit is now expected to total $181 million . . . a reduction of about $44 million from the potential year-end figure in front of us less than five months ago.
- Our preliminary year-end expenditure total now stands at some $1,653* million on a combined basis . . . while revenues are likely to reach approximately $1,472 million.

Approximately one-quarter of the reduction in the deficit results from decreased spending, while the remainder represents primarily an improvement in federal shared-cost payments and, to a very limited extent, direct provincial revenues which in total partly offset the drop caused by revised federal income tax estimates of last October which have not improved.

Further information will be made available at the time our interim unaudited financial statement for the year is completed . . . probably in June. **You will note that this is the first time that the Province has released these figures at such an early date.**

What this points out . . . very clearly . . . is that the former government could . . . and should . . . have been aware of a worsening financial picture around mid-year . . . a very critical period for our economy.

* This figure includes a provision for debt redemption (sinking-funds) as voted in the 1977/78 Estimates of Expenditure. This provision has been deleted in the 1978/79 Estimates as noted in the Reconciliation Statement on page 30 of the Estimates of Expenditure.

The improvement in the 1977/78 deficit situation does not obscure the fact that the Province's budgetary position should never have been permitted to deteriorate to the extent that it did under the former government.

It is not an acceptable defence to assert that most provinces experienced difficulties last year because of unexpected, and unusually-large downward revisions in federal estimates . . . While such revisions did occur . . . and compounded the problem . . . the increased Manitoba deficit was the result of factors . . . including expenditure over-runs . . . which were entirely the responsibility of the government of the day.

Our Administration intends to make certain that this does not happen again.

We will implement more timely revenue and expenditure monitoring procedures, and other financial management improvements to detect any deterioration as soon as it happens and to permit immediate compensating action. And . . . more important . . . we will ensure that our overall fiscal planning does not place us in a position where we are unduly vulnerable to unforeseen changes affecting our budget.

Finally . . . if we do encounter problems . . . they will be made known to the people of Manitoba through our quarterly financial statements . . . in line with our commitment to the principle of accountability.

If there had not been a change in government on October 11th, it is entirely possible that, under the reporting systems then followed, the citizens of our Province . . . and the Members of this Assembly would not know . . . to this day . . . the seriousness of the situation we faced last fall . . . and the degree to which it will continue to limit our options as we enter a new fiscal year.

The financial storm clouds that were gathering during the final three years of the former government's tenure should have been obvious.

The implications are clear in the estimates of the Department of Finance. The annual cost of debt servicing over the past three-year period has increased by roughly $28 million, from around $16 million to some $44 million. As a result of the previous government's failure to pay attention to the excessive deficit picture and the mounting debt servicing burden, our Administration is very seriously inhibited by lack of funds available to carry out the many services . . . such as in health and education . . . that we would want to pursue in a healthy financial climate.

In a layman's perspective, that same $28 million in the coming year is equivalent to one-third of the entire budget of the University of Manitoba . . . and that is not just this year . . . It will continue **every** year . . . as long as it takes to retire the debt.

Budgetary Proposals — 1978/79

Main Expenditure Estimates

On Wednesday, March 29th, I tabled our Government's Main Estimates of Expenditures for 1978/79.

In my statement at that time, I pointed out that the Estimates included certain important changes in presentation, such as the combining of current and direct, budgetary capital expenditures, as recommended by the Provincial Auditor.

When the text of my Address is distributed later tonight, Members will find included with it a background paper on this change, as well as on a number of other planned and proposed improvements in our financial reporting system. I will welcome comments on it.

I would like to take this opportunity to express my appreciation to the Task Force on Government Organization and Economy for the high quality and valuable overview which it was able to accomplish in the short time available to it. Many of its recommendations will be particularly useful to me, as Minister of Finance, and they will provide much-needed guidance to the Government as a whole in our efforts to bring public spending back under control in this province.*

In this connection, I noted with interest the Task Force's recommendation that the Property Tax Credit Plan be re-evaluated.

While reaffirming the desirability for continuation of direct property tax relief, it is our view that the current program is unduly complicated and costly to administer. In addition, we are aware of a number of unnecessary and inequitable anomalies in its operation. It is our intention therefore . . . over the next several months . . . to consider options for rationalizing and simplifying the system . . . with a view to implementing an improved program in 1979.

Senior Citizens' School Tax Assistance

In the interim, however . . . and as a transitional measure . . . we intend to supplement the current program . . . in fulfillment of a commitment we made during the last election campaign . . . with a special plan to provide additional school tax relief for senior citizen homeowners.

Under this plan, every pensioner who resides in his or her own home will be eligible for up to $100 in extra assistance to help offset school taxes this year. This extra assistance will be in addition to present property tax credit payments, with the result that pensioners who qualify for maximum entitlements will receive $475 in direct property tax relief for 1978 instead of the $375 they received last year.

In combination with the credits, it is estimated that this new program will eliminate school taxes for roughly three-quarters of all Manitoba pensioners who live in their own homes. Current estimates indicate that about 95% of all pensioners who are tenants already receive property tax credits sufficient to offset the portion of their rents attributable to school taxes.

Because of the short time available to implement this new program . . . and because the Government wants to ensure that pensioners receive their extra assistance as soon as possible, to help cover this summer's tax bills . . . we expect to have the measure administered through municipal offices by completion of a simple application.

Provision has been made for the cost of the program . . . approximately $2 million this year . . . in the Main Estimates for property tax credit payments.

Private Sector Youth Employment Program

Our Government is very concerned about the rate of unemployment among young people across the country. While we feel that this problem can only be rectified on a long-term basis by appropriate policies at the national level, we recognize that provincial governments can play a part as well.

Despite necessary expenditure limits, existing Manitoba programs will provide students with roughly 2,000 jobs in the provincial public sector over the summer.

* The Task Force Report on Government Organization and Economy (Vol. I and Vol. II) is available from the Manitoba Queen's Printer, $5.00 per set, 200 Vaughan Street, Winnipeg, Manitoba R3C 1T5.

I am happy to announce that the Province will also introduce a new Private Sector Youth Employment Program to help provide valuable work experience for young Manitobans in the coming months.

Under this program, all businesses and farm operators in the province will be eligible for employment grants of $1.25 to $1.50 per hour up to $1,000 for each new position created and filled with a qualified applicant — a person who is unemployed and between the ages of 16 and 24.

The grants will be provided for a 16-week period, and will be available for work undertaken between May 1st and October 27th. There will be a grant limit of $10,000 per employer.

It is expected that the Private Sector Youth Employment Program will cost about $2 million in 1978/79 and will provide approximately 2,000 jobs in the coming months. This is an approximation only and not an upper limit.

The program will be administered through the Department of Education, and the Minister responsible will announce further details when they have been finalized. Supplementary estimates will be required to finance the program and will be tabled at the end of my Address.

Staffing

It is our intention to implement the new Pensioners' School Tax Assistance and Private Sector Youth Employment Programs without any increase in staff. In fact, the general restraints on new hiring which were implemented last fall will continue in the new fiscal year.

When we took office, there were approximately 16,000 regular and departmental employees on our payroll. The regular payroll includes those employed on a permanent, term, and contract basis.

Members will be interested to know that, as of April 7th, the date of the last available summary, there were approximately 1,000 fewer employees, excluding seasonal employees.

Members opposite may argue that it is a contradiction to reduce staff and . . . at the same time . . . provide financing for special job creation measures.

That is nonsense. What would be contradictory . . . and irresponsible . . . would be to use taxpayers' money to keep people on the public payroll whose positions were no longer justifiable in terms of providing needed services for the citizens of Manitoba . . . when there are so many other crying needs that cannot be accommodated because of our financial position.

That sort of lax attitude goes a long way toward explaining the stringent financial situation facing the Government today.

Spending Growth

As I noted last week, the Main Estimates total . . . approximately $1,649 million . . . represents a 2.9% increase on a combined basis compared to the adjusted estimates figures for 1977/78 . . . probably the lowest rate of increase for any senior government in Canada this year. Even on the old current account basis, our increase in Main Expenditures over last year only amounts to 3.8%.

Adding the $2 million supplementary estimate raises the combined and "current-only" percentages to 3% and 4%, respectively.

As a basis for comparison, Members may be interested to know that the federal government's 10% spending growth target for 1978/79 is not a "vote" over "vote" percentage, but is based on the 1978/79 estimates total over 1977/78 "preliminary actual" figures. On that same comparative basis, our anticipated spending is marginally up from last year by about 1.2%.

Revenue Estimates

The estimates of revenue for the 1978/79 fiscal year which I will table at the end of my Address total $1,536 million.

As in the case of the expenditure estimates, the revenue figures have been combined to include both current and direct capital receipts.

Changes have resulted from the decision to present tax credits as expenditures rather than revenue reductions . . . and changes have also been necessary as a follow-up to the new Federal-Provincial Established Programs Financing Arrangements which have replaced direct cost-sharing for hospital insurance, medicare, extended health services, and post-secondary education. As I explained in my statement on the expenditure estimates, until this year, cost-sharing payments for hospital and medical services have been netted out of Manitoba Health Services Commission expenditures and not shown at all on the revenue side. Now, however, with a new financing system in effect, M.H.S.C. expenditures and related federal payments will both be shown on a gross basis.

These modifications result in a significantly larger — and more accurate — figure for individual income tax revenues than was portrayed in the revenue estimates last year. The 1977/78 total has also been adjusted for comparability.

A careful study of the revenue estimates reveals that the rapid, inflation-induced growth of the early '70's has been replaced by a significantly lower rate of increase in some of the Province's most important taxes.

Overall, the rate of growth in revenues for 1978/79 is forecast at only about 1.7% above last year's estimates and 4.4% above the likely actual.

Taxation

In the near future, I will be tabling legislation in the House to authorize the income tax reductions announced during the special Session of the Legislature last fall.

These reductions . . . which will bring our personal income tax rate to 54%, and our small business rate to 11% for 1978 . . . are already in effect on the basis of a formal notice of intent provided to Revenue Canada when they were announced.

Despite the revenue impact, as I indicated at the time, our Government believes that these reductions, along with the elimination of the succession duty, the gift tax, and the mineral acreage tax, were essential as initial steps towards restoring confidence and a competitive tax structure in our Province.

As I also indicated during the special Session last fall, the Government has undertaken a detailed review of the entire range of provincial taxes with the intention of implementing reforms and reductions wherever possible . . . within the limits of our overall fiscal capacity.

Although those limits are severely constrained this year, a number of further changes and improvements will be introduced.

Income Taxation

The first change will involve the extension, beyond the 1978 taxation year, of the current 15% tax rate on corporation income not subject to the small business deduction. Under existing legislation, the present rate would have reverted to 13% on January 1, 1979. While our Government would hope eventually to lower the rate from the 15% level, budgetary circumstances will not permit it in the immediate future. The annual revenue from the two-point surtax amounts to about $12 million.

On the personal income tax side, the present anti-inflation surtax will continue to the end of 1978, as called for under the legislation, and then will be phased out in line with the termination of the A.I.B. Revenue from the personal income tax surtax is around $5 million a year.

Since neither of these measures applies to 1978, our revenues for the current tax year will not be affected.

Corporation Capital Tax

Since 1976 when it was first implemented, the corporation capital tax has been a major source of concern, particularly to the small business community in our province. This very complex tax has resulted in upwards of 30,000 taxfilers being required to complete the difficult return, for very little, or in most cases, no tax payment. This clearly has been a case where excessive requirements have been made on small businesses by government . . . with very limited tax revenue, but with great hardship to many of the small businesses involved.

Our present financial position will not permit elimination of the tax, but to assist small business in our province, we intend to raise the minimum exemption under the Corporation Capital Tax Act from the current level of $100,000 of taxable capital to $500,000 . . . effective April 1 of this year.

This measure . . . which will cut the number of tax-paying small corporations by approximately 70% — from 5,000 to 1,500 . . . will reduce corporation capital tax revenues by only approximately $1.8 million this year. This will remove the extra burden on small business for specialized accounting help with only a 13% decrease in revenues from this tax.

Tobacco Tax

A number of provinces, including Ontario and Saskatchewan, have increased their tobacco tax rate in their Budgets this year. Our Government proposes to do the same. Effective May 1, the rate of tax in Manitoba will be raised by 1/5¢ per cigarette from 4/5ths of a cent to a full cent each, and equivalent increases will be implemented for other tobacco products. This change will produce roughly $4.8 million in additional revenue in a full twelve-month period.

Gasoline and Motive Fuel Taxation

It has already been announced that the 2¢ per gallon gasoline and motive fuel tax subsidies which had been assigned by the previous government to Autopac will be discontinued in order to ensure that the real costs of public automobile insurance are

more clearly defined. The associated revenue will remain in the consolidated fund effective April 1st. This rate of tax is comparable with the rates of most other provinces.

At the same time, our Government also proposes a number of selective fuel tax reductions. Effective at midnight tonight:

- All farm trucks will be eligible to use tax-free motive fuel. Presently, only farm trucks using gasoline or farm trucks using diesel fuel and which have no more than two axles are permitted this exemption.
- Municipalities will also be allowed to use tax-exempt marked diesel fuel in off-highway equipment. At present, they are allowed a partial refund only.
- The use of tax exempt purple fuel will also be permissible in chain saws and "tree farmers." Currently, full tax must be paid for gas used in chain saws and only a partial refund is permitted for diesel fuel used in "tree farmers."
- Refund procedures similar to those applicable to railways will be provided for interprovincial truckers to compensate them for excess fuel purchases in Manitoba, provided tax has been paid to another province.

The combined cost of these reductions will be approximately $500,000 in a full year.

The Revenue Act, 1964

Under the Revenue Act, 1964, steam heat and hot water are presently taxable. To encourage better energy utilization and recovery of waste heat, our Government proposes to exempt these items effective April 1 at a cost of approximately $300,000 to $400,000.

The Retail Sales Tax

Under the Retail Sales Tax Act . . . and effective at midnight tonight . . . we propose to apply the sales tax rate to 50% of the selling price of mobile homes, excluding furnishings, and 55% of the price of modular homes . . . as opposed to the 100% previously taxable . . . to provide equal treatment with on-site construction of houses, where materials only — and not on-site labour — are taxed. The reduction will be implemented by refund and will help facilitate more private home ownership.

The estimated cost of this measure will be approximately $1 million in a full year.

In addition, the partial sales tax exemption introduced last year for insulation materials will be broadened to cover all purchasers. As we indicated in the House last year, we believe that the conservation benefits provided by this exemption should be as broadly-based as possible . . . and should not be limited arbitrarily to non-commercial residential purposes.

Energy-conserving triple-glazed windows and triple-glazed doors will also be included under the exemption.

These changes are effective at midnight tonight.

The full-year cost of extending the exemption is estimated at approximately $300,000.

Sales Tax Rate Reduction

Finally, I wish to announce that . . . effective at midnight tonight . . . the Retail Sales Tax rate will be reduced by 3 percentage points, from the present 5% to 2%.

The 2% rate will remain in effect until the end of September, this year.

A similar rate reduction will also apply under the Revenue Act, 1964, Part I. The rates on alcoholic beverages will remain unchanged.

Members who have heard preliminary reports on tonight's federal Budget will be aware that similar general reductions are being introduced in most other provinces this evening as well.

The Government of Canada has undertaken to provide partial compensation to provincial governments which introduce temporary sales tax rate reductions in the hope that the combined cuts, on a national basis, will have a positive effect in stimulating the economy in the coming months.

Current estimates suggest that the measures will reduce Manitoba's general sales tax revenues by around $61.5 million for 1978/79. Of this total, approximately $20.5 million will represent a direct revenue loss to the Province, while the remainder, some $41 million, will be recovered through federal income tax transfers and cash.

It has been barely two weeks since the provinces were first advised that the federal government might be prepared to underwrite a portion of a provincial sales tax reduction . . . and confirmation that the plan would proceed only came late last week. As Members will appreciate, negotiations were quite intense during that period, and, in fact, further discussions will have to take place to resolve a number of outstanding details. We would have preferred more time to negotiate possible variations in the size, term and selective application of the abatement.

Our Government's views on the reduction plan were . . . and continue to be . . . mixed.

Obviously, we favour a cut in taxes . . . We have already reduced a wide range of our own taxes, we had been looking at a general or selective sales tax rate reduction as one of our budget options, and we have been advocating a federal tax cut as well . . . as have the Economic Council of Canada, the C.D. Howe Research Institute, and many others.

But, we have argued . . . consistently . . . that the federal government should make room for a tax cut by bringing its spending under control, and by reducing its deficit . . . and it has done neither . . . with the result that the impact of this reduction measure on the economy may not be as beneficial as it might otherwise have been.

Of course, the reduction will no doubt cause an early improvement in the Consumer Price Index . . . probably in advance of a national election in June . . .

On the negative side, our Government feels that the proposed federal compensation formula discriminates against our Province and our taxpayers by not taking our budgetary and economic situation into account.

In the Atlantic Provinces, the federal government has promised to cover the full revenue loss resulting from a 3-point reduction . . . but for the remaining provinces . . . with the exception of Alberta . . . it is only willing to pay two-thirds of the cost . . . with the implication that if a province did not agree to finance the other one-third . . . Ottawa would refuse to provide any benefits whatsoever to taxpayers in that jurisdiction. A province which failed to join in the plan would be placed in the impossible position of having its taxpayers assessed by the federal government to pay for the reduction in other provinces, while receiving no benefit from the two-thirds tax transferral scheme.

The measure . . . while stimulative to the economy in the short run, and therefore desirable, has all the unacceptable qualities of initiatives taken by the Liberal Governments of the 1960's . . . which distorted provincial budgetary planning by utilizing the

offer of "50¢ dollars" — or in this case "66⅔rd's-cent-dollars" — to accomplish federal aims by instrusion into provincial areas of constitutional and fiscal authority.

This nation has been too long subjected to such intrusive and sometimes ill-conceived impositions of federal political priorities on the programs and budgetary processes of the provinces. At least part of the reason for the economic degradation of the nation today can be laid at the door of just such programs. It is time we had a federal government in office which would respect the spirit and the letter of the phrase "co-operative federalism," rather than engage in crude invasions into areas of provincial authority, which leave responsible governments no alternative if their taxpayers are to be protected and dealt with equitably.

I repeat . . . the initiative to give a major sales tax reduction to all taxpayers in Manitoba is one to which all reasonable persons subscribe, provided it is done in a fiscally responsible manner. However . . . for a federal government whose spending continues to careen out of control to espouse such a major tax reduction — $1.3 billion — **without** concurrent and matching reductions in federal expenditures . . . represents fiscal irresponsibility of the highest order. It is estimated that this program will increase the federal deficit by as much as $800 million in the current fiscal year . . . $800 million which will have to be financed by yet more federal borrowing, and a consequent addition to debt carrying charges which already represent over 14% of current spending by our nation.

I suggest, in the most serious way I can, that it is immediately incumbent on the present federal government to reduce — as we have in Manitoba — the level of expenditures to compensate for this tax reduction. The failure to do so will largely negate the hoped-for short-term stimulative benefits which this reduction may provide.

We also put the federal government on notice that we do not accept this hastily-devised plan as any precedent for future invasions of provincial tax authority by that government.

Despite our misgivings with respect to the federal government's fiscal position . . . we feel that our own provincial deficit budget . . . while significant, is nonetheless manageable.

Thus . . . on balance . . . we have decided to go along with the plan and to "cost-share" it with the federal government for the reasons outlined earlier.

With the measures I have announced tonight, since coming into office we have decreased overall taxation through reductions in:

— income tax, both personal and corporate,

— succession duty,

— gift tax,

— corporation capital tax,

— sales tax, and

— a range of smaller "nuisance" taxes.

The value in 1978/79 of the tax revenue which will be left in taxpayers' pockets as a result of these measures amounts to some $88 million, including the total sales tax reduction. When the tobacco tax change is taken into account, the net effect of our tax measures to date is a reduction of over $83 million.

Budgetary Account Summary

On the basis of the revenue and expenditure figures which I have provided to the House, the estimated provincial deficit for the 1978/79 fiscal year will be approximately $114.2 million when current and capital are combined. Alternatively, it would be approximately $34.2 million on the old "current only" basis. If the revenue loss caused by the sales tax rate cut were excluded, the "combined" deficit would be $93.7 million and the "current" deficit $13.7 million.

This represents further improvement from the 1977/78 year-end position, but we still have much to accomplish before we can be satisfied with our overall financial situation.

Even with the stringent restraint programs in place and the marginal increase in the total expenditures we have announced, there remains a significant but manageable budgetary deficit.

This sobering fact should be sufficient answer in itself to those who continue to call for increased expenditures. We are satisfied that the vast majority of Manitobans recognize and endorse the policies we are pursuing in fulfillment of our mandate to restore prudence and common sense to the running of their public affairs in the current difficult times.

Borrowing Policy and Non-Budgetary Capital Requirements

During the last election campaign . . . and prior to it . . . there was considerable, although mostly unnecessary controversy with respect to the debt position of this Province.

As Members will recall, debate centered on the distinction between borrowing for budgetary purposes and borrowing for so-called "self-sustaining" projects.

It was our contention at the time . . . and it was backed up by statistics produced by various investment houses . . . that Manitoba's combined direct and guaranteed debt was the second highest in Canada on a per capita basis.

We argued that the components of the debt . . . or the kind of debt . . . were in many respects immaterial, in that investors . . . and our own taxpayers . . . were concerned with the "bottom line." I am sure Members opposite are well aware of this, because their own prospectus material for various U.S. bond issues contained a total direct and guaranteed debt presentation to conform to the requirements of the Securities and Exchange Commission.

At the end of March, 1978, the per capita combined direct and guaranteed debt figure for our Province was $3,465 after deducting funds held for debt retirement — probably still the second highest in the country.

As circumstances permit, it is our intention to improve our comparative position by limiting both direct and guaranteed capital outlays to the greatest extent possible. Of course, for a time, it will be necessary to borrow to finance the budgetary deficit . . . and there will continue to be essential capital requirements for our major Crown corporations which must be met. However, total requirements can and must be reduced to bring our debt burden into line . . . until we can be sure that it is "self-sustaining."

As a start, the House will be asked to grant borrowing authority for Crown corporations and agencies in 1978/79 totalling $292.9 million — a decrease of $128.4 million, or roughly 30%, from authority provided for 1977/78. An amount of $114.2 million will also be required to finance the projected budgetary deficit.

By far the largest part of the decrease in Crown agency requirements . . . over $70 million . . . is attributable to the slowdown in northern Hydro development . . . which results from declining growth in power demand over the past two or so years.

Hydro . . . is recognized as the most unique natural resource of the last 50 years in Manitoba . . .

The great move to the Nelson River in 1966 by the Government of that day . . . and one of our great resource visionaries and practitioners, the late D. M. Stephens . . . was a bold and prudent move that committed Manitoba to thirty years of renewable resource development.

However, future development must match the demand. The cost of servicing the debt incurred in the development of these very expensive plants must be passed on to committed power users. In the planning and staging of these plants, it is imperative that sales for power produced must be available when the power comes on stream. It is not prudent to commit the construction of a plant costing some $1 billion without the knowledge that the power, when produced, will be sold, **and** the upward to $100 million in annual interest costs arising from the debt will be passed on to the power user. Without this clear knowledge, the added burden of cost increases to existing users becomes intolerable.

To further demonstrate the magnitude and impact of northern Hydro development on our people and economy, the following facts are critical to note about our present situation, quite apart from future developments.

Hydro debt even now represents close to two-thirds of gross provincial debt and debt guarantees. Only part of that debt has been put on the operating account and is being paid for by Hydro ratepayers. About $700 million of it is not being serviced by the ratepayer, but is being paid back by borrowing yet more money to pay the interest charges and capital repayment. About $200 million of the $700 million is to be charged to the ratepayers in the current year . . . and was largely responsible for the 15% rate increase last February.

But . . . the remaining $500 million must also come on the operating account and therefore be paid by the Hydro ratepayer. Manitoba Hydro predicts our near-future annual electrical growth rate at 6% - 7%, which if realized would temper the burden of this debt payment . . . . We must recognize however that in the last year the growth has been only 1½%.

This scenario leads to only one conclusion. Either we develop markets through in-province consumption or we develop export markets. If we do neither in the near future, even "school boy arithmetic" spells out the consequences for the Hydro ratepayer.

Additional borrowing authority of $4.5 million over last year's total is being requested for the Manitoba Telephone System, and a $4.6 million increase is required by the Manitoba School Capital Financing Authority.

A specific amount of $4 million has been included for the Insulation Loan Program started last year. Until now, the insulation program has been financed through General Purposes Capital. This program has turned out to be successful . . . more so than the federal grant program which has limited application. To date, over 3,000 loan applications have been approved.

Off-market sources such as the Canada Pension Plan should provide a significant

portion of our total borrowing requirements for both budgetary and non-budgetary purposes, The remainder . . . our public market borrowing . . . will total roughly $310 million.

The current weakened position of the Canadian dollar has focussed attention on the risks of financing in foreign markets. In view of our continuing need for long-term capital, it is important that we maintain access to the major capital markets of the world and seek the best terms available in the interests of the people of our Province . . . Moreover . . . we have confidence in the long-term potential of the Canadian economy and the eventual recovery of the dollar.

One of the outstanding problems relative to our economy is the possibility of Quebec separating from the rest of Canada. There is no question that this possibility has had a negative effect on the perception of the stability of the Canadian nation to the rest of the world . . . and, as a corrollary . . . on the value of the Canadian dollar. This impacts directly on Manitoba through our foreign borrowing obligations and future uncertainty . . . as well as on the retardation of internal as well as outside investment in the Province.

Full economic recovery in Canada will regrettably continue to be incomplete until this issue is perceived to be resolved both in Canada and abroad.

This economic impact is of course only one of the aspects of this critical current question. I know that I speak for the vast majority of Canadians who would not want to see any division of Canada.

Conclusion

Mr. Speaker . . . in many ways . . . the Budget I have presented tonight could be characterized as a transitional report to the people of Manitoba.

It describes the difficult economic and financial situation facing us . . . the reasons for these problems . . . and the strenuous course that our Administration believes must be followed for medium and long-term recovery.

It is our first Budget . . . and it is a significant Budget . . . . It sets fundamentally important goals and objectives for the future of Manitoba.

It charts a new direction . . . a more responsible direction . . . designed to inspire pride and confidence in our Province . . . and in our ability to manage our public affairs in a common-sense way in the difficult economic times which face the country.

With cooperation . . . dedication . . . perseverance . . . and hard work . . . the people of Manitoba can and will overcome the effects of the last eight years and get our economy moving again.

And to repeat an opening comment . . . our challenge is not to restrict essential government services for the people of Manitoba . . . but rather to help build and maintain the economic base which will make these services possible.

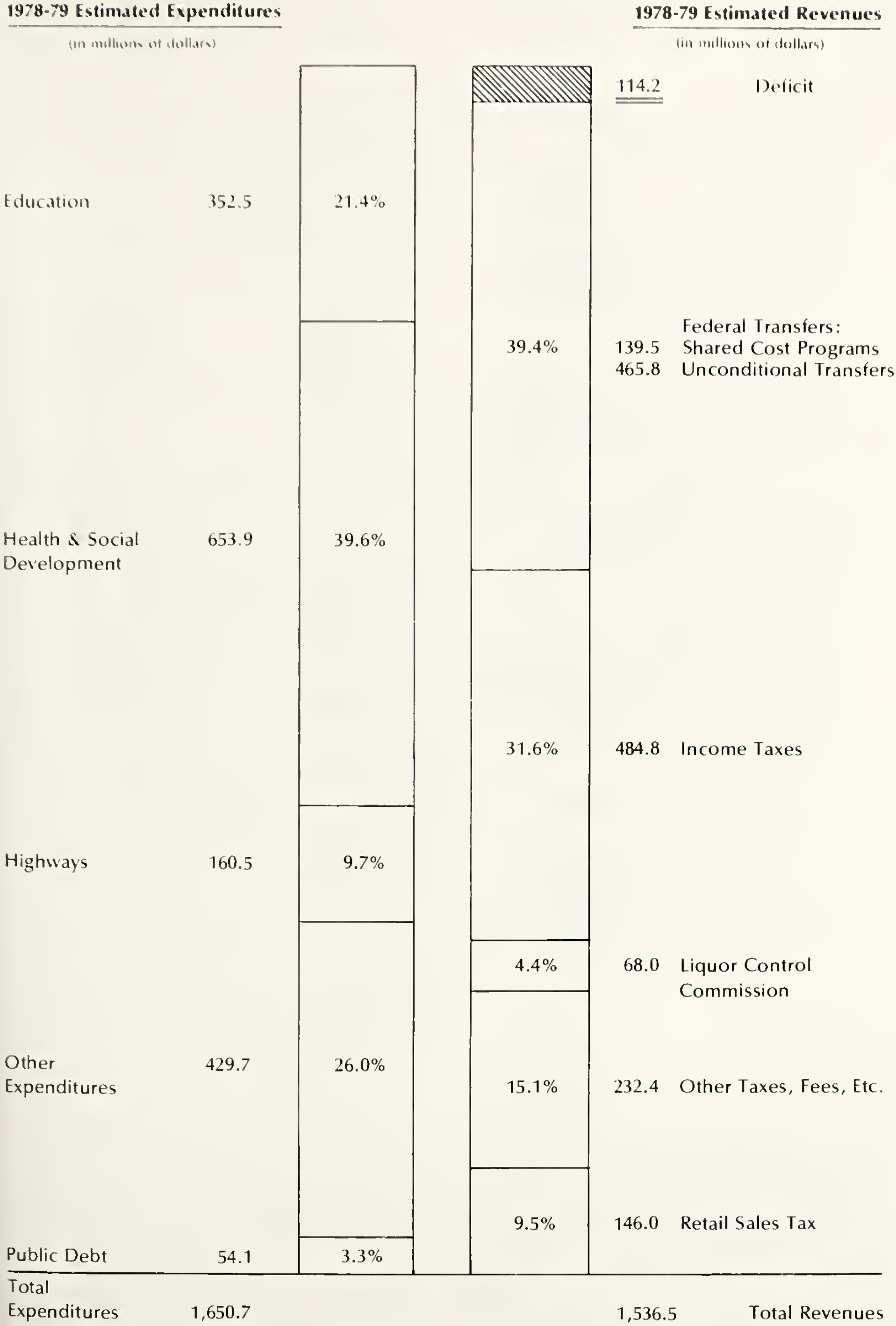
Mr. Speaker, we can and we will.

SUPPLEMENTARY BUDGETARY INFORMATION

SUPPLEMENTARY BUDGETARY INFORMATION

FINANCIAL AND ECONOMIC INFORMATION

1978-79 ESTIMATED EXPENDITURES & REVENUES



Department of Finance
Treasury Division

MAIN AND SUPPLEMENTARY ESTIMATES OF EXPENDITURES
FISCAL 1977-78 AND 1978-79

	Fiscal 1977-78 (1)	% of Total	Fiscal 1978-79 (2)	% of Total
1. Education	$351,411,600	21.9	$352,539,400	21.4
2. Health & Social Development	$635,645,900	39.7	$653,856,900	39.6
3. Highways	$119,947,700	7.5	$160,545,400	9.7
4. Other Expenditures				
(a) Legislation	3,372,800		3,424,000	
(b) Executive Council (excluding M.H.R.C.)	4,357,300		3,007,500	
(c) Manitoba Housing & Renewal Corporation	17,003,800		19,987,200	
(d) Agriculture	36,506,300		29,829,900	
(e) Attorney-General	28,337,300		31,232,200	
(f) Civil Service	11,196,500		12,558,300	
(g) Consumer, Corporate & Internal Services	3,681,900		3,538,000	
(h) Co-operative Development	2,241,100		1,113,700	
(i) Finance (excluding Public Debt and Tax Credits)	8,949,400		7,573,800	
(j) Tax Credit Payments	121,077,000		133,500,000	
(k) Industry & Commerce	6,616,500		4,673,500	
(l) Development Agencies	653,000		314,600	
(m) Labour	4,285,600		4,321,300	
(n) Mines, Resources & Environmental Management	29,999,500		26,612,800	
(o) Municipal Affairs	20,623,000		20,373,900	
(p) Northern Affairs & Renewable Resources & Transportation Services	40,962,300		34,340,800	
(q) Public Works	57,734,000		53,901,100	
(r) Tourism, Recreation & Cultural Affairs	28,819,500		25,963,600	
(s) Urban Affairs	1,249,200		1,025,700	
(t) Flood Control & Emergency Expenditures	1,000,000		300,000	
(u) Canada-Manitoba General Development Agreement	3,660,200		2,073,200	
(v) Special Employment Program	33,100,000		—	
(w) General Salary Increases	—		8,000,000	
(x) Private Sector Youth Employment Program	—		2,000,000	
	$ 465,426,200	29.0	$ 429,665,100	26.0
5. Public Debt	$ 30,108,000	1.9	$ 54,051,000	3.3
	$1,602,539,400	100.0	$1,650,657,800	100.0

(1) The 1977-78 Printed Estimate figures have been adjusted to reflect appropriation transfers among departments, amounts voted in The Supplementary Appropriation Acts, 1977 No. 1 and 2, and transfers to departments from enabling votes. Further adjustments have been made to include Manitoba Health Services Commission gross expenditures, to reflect Tax Credit Payments as expenditures, and to reflect the change in accounting procedure for sinking fund payments.

(2) As a result of a change in accounting procedure all direct government expenditures, including those formerly voted in The Loan Acts as Schedule "B" Capital, are now included in departmental main estimates of expenditure.

Department of Finance
Treasury Division

REVENUE ESTIMATES — FISCAL 1977-78 AND 1978-79

	Fiscal 1977-78 (1)	% of Total	Fiscal 1978-79	% of Total
1. Federal Transfers				
(a) Shared Cost Programs	$ 118,854,700		$ 119,766,800	
(b) Acquisition/Construction of Physical Assets	25,236,700		19,709,400	
(c) National Equalization	200,900,000		231,800,000	
(d) Income Tax Revenue Guarantee	17,000,000		14,400,000	
(e) Established Programs Cash Transfer	156,232,000		217,415,000	
(f) Government of Canada Subsidy	2,156,000		2,156,000	
	$ 520,379,400	34.5	$ 605,247,200	39.4
2. Income Taxes				
(a) Individual Income Tax	$ 388,311,000		$ 378,575,000	
(b) Corporation Income Tax	96,333,000		106,194,000	
	$ 484,644,000	32.1	$ 484,769,000	31.6
3. Liquor Control Commission	$ 68,000,000	4.5	$ 68,000,000	4.4
4. Other Taxes, Fees Etc.				
(a) Legislation	$ 508,500		$ 522,000	
(b) Agriculture	447,500		751,800	
(c) Attorney-General	11,954,300		14,040,200	
(d) Consumer, Corporate and Internal Services	1,296,000		1,516,300	
(e) Co-operative Development	5,900		46,600	
(f) Education	1,256,500		2,014,000	
(g) Finance	167,170,000		157,685,000	
(h) Health and Social Development	653,000		637,000	
(i) Highways	24,805,000		25,760,000	
(j) Labour	577,400		690,000	
(k) Mines, Resources and Environmental Management	6,356,000		6,403,200	
(l) Municipal Affairs	100,000		152,000	
(m) Northern Affairs and Renewable Resources and Transportation Services	3,831,000		4,241,300	
(n) Public Works	2,151,000		2,057,700	
(o) Tourism, Recreation and Cultural Affairs	2,410,300		3,358,000	
(p) Shared Cost Receipts, Provincial Governments and Municipalities	3,305,800		3,554,300	
(q) Miscellaneous Receipts for Sundry Services	12,361,600		9,002,600	
	$ 239,189,800	15.8	$ 232,432,000	15.1
5. Retail Sales Tax	$ 198,000,000	13.1	$ 146,050,000	9.5
	$1,510,213,200	100.0	$1,536,498,200	100.0

(1) The 1977-78 Printed Estimate figures have been adjusted to include Manitoba Health Services Commission receipts from the federal government and to reflect the gross revenue for individual income tax. Tax credit payments which were previously netted against individual income tax are now reflected as expenditures.

Department of Finance
Treasury Division

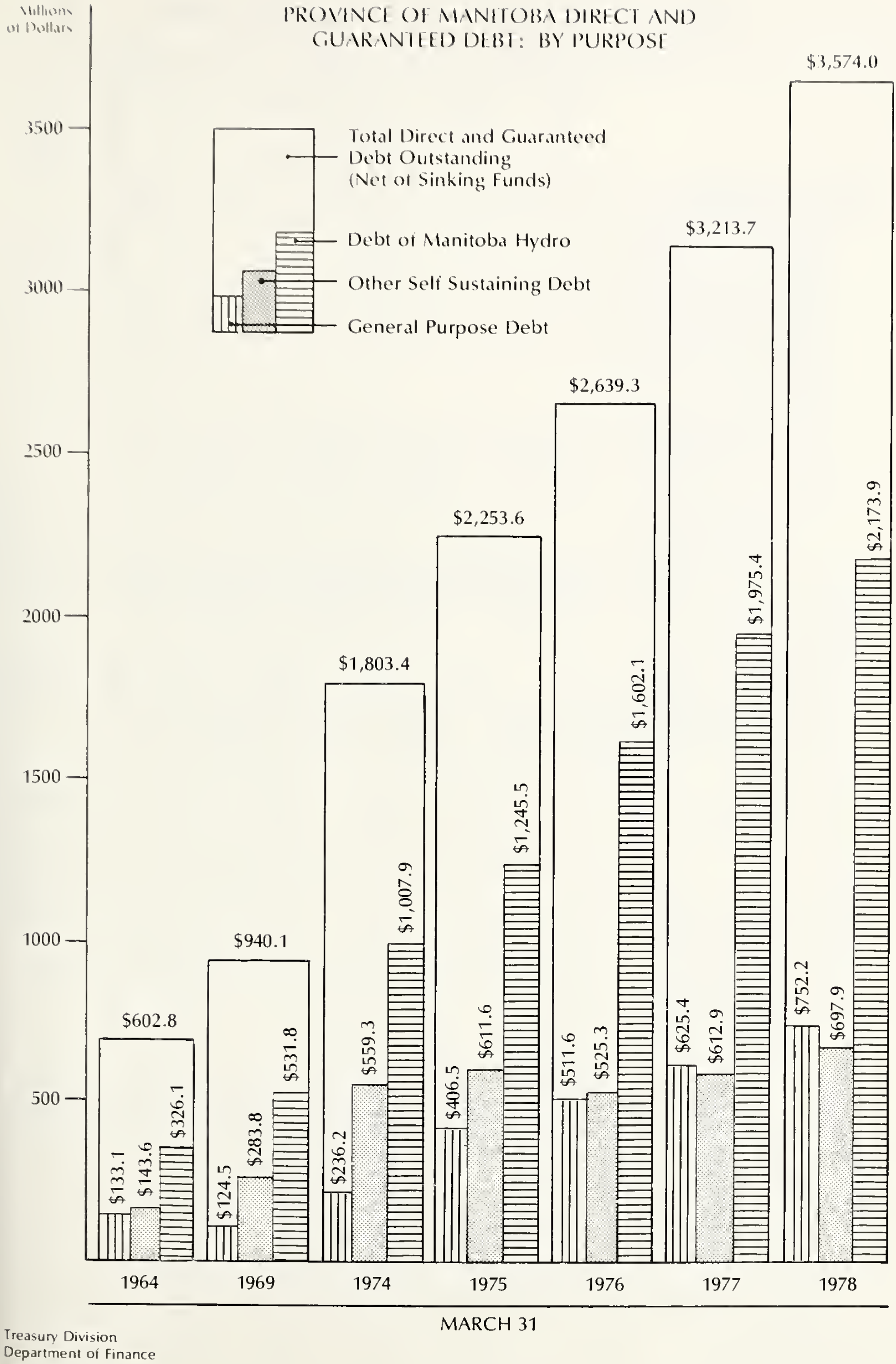
1978-79 BORROWING AUTHORITY REQUIREMENTS

($'000)

Self-Sustaining Programs	**1977-78**	**1978-79**
The Manitoba Hydro-Electric Board	$278,800.0	$205,600.0
Manitoba Telephone System	42,500.0	47,000.0
The Manitoba Water Services Board	3,817.0	4,200.0
The Manitoba School Capital Financing Authority	19,000.0	23,600.0
Manitoba Forestry Resources Ltd.	4,500.0	5,950.0
Agricultural Service Centres Agreement	—	2,500.0
Insulation Loan Program	—	4,000.0
Manitoba Housing and Renewal Corporation	64,100.0	—
Leaf Rapids Development Corporation Ltd.	8,525.0	—
	$421,242.0	$292,850.0
Estimated Budgetary Deficit	92,326.2(1)	114,159.6
Total Borrowing Requirements	$513,568.2	$407,009.6

(1) Revised for comparison with the 1978-79 estimates.

Department of Finance
Treasury Division



Treasury Division
Department of Finance
March 31, 1978

SUMMARY OF DIRECT AND GUARANTEED DEBT

	March 31,						
	1964	1969	1974	1975	1976	1977	1978
	(in millions of dollars)						(Preliminary)
Direct Funded Debt							
Bonds and Debentures:							
Payable in Canadian Dollars	261	234	429	549	674	757	833
Payable in U.S. Dollars	40	90	155	190	250	298	298
Payable in Swiss Franks	—	—	20	20	61	191	303
Payable in European Units of Account	—	—	25	23	60	58	56
Payable in Deutsche Marks.	—	—	—	—	—	—	68
Payable in Hong Kong Dollars	—	—	—	—	—	—	33
Payable in Japanese Yen ...	—	—	—	—	—	44	113
Treasury Bills and Other Notes	37	44	67	162	88	120	167
Total Direct Funded Debt	338	368	696	944	1,133	1,468	1,871
Less: Sinking Funds and Other Funds held for Debt Retirement	58	93	111	123	143	181	205
Net Direct Funded Debt...	280	275	585	821	990	1,287	1,666
Guaranteed Debt							
Bonds and Debentures:							
Payable in Canadian Dollars	279	556	1,010	1,036	969	1,016	1,029
Payable in U.S. Dollars	53	106	226	426	676	926	926
Payable in Swiss Francs	—	—	25	25	56	56	56
Payable in Deutsche Marks.	—	27	31	31	31	31	31
Payable in Pounds Sterling	—	—	—	2	10	12	12
Demand Notes.............	—	9	9	9	9	9	9
Total Guaranteed Debt..	332	698	1,301	1,529	1,751	2,050	2,063
Less: Sinking Funds	9	33	82	96	102	123	155
Net Guaranteed Debt...	323	665	1,219	1,433	1,649	1,927	1,908
Summary:							
Gross Direct Funded Debt ...	338	368	696	944	1,133	1,468	1,871
Gross Guaranteed Debt	332	698	1,301	1,529	1,751	2,050	2,063
Total Funded Debt	670	1,066	1,997	2,473	2,884	3,518	3,934
Less: Sinking Funds and Other Funds held for Debt Retirement	67	126	193	219	245	304	360
Net Direct and Guaranteed Debt	603	940	1,804	2,254	2,639	3,214	3,574
Per Capita (in dollars)	$628	$968	$1,810	$2,237	$2,604	$3,146	$3,465

Treasury Division
Department of Finance
March 31, 1978

ECONOMIC STATISTICS — MANITOBA

				Percentage Growth Rates		
	1975	1976 r	1977 p	1975/ 1974	1976/ 1975	1977/ 1976
GROSS PROVINCIAL PRODUCT: ($ Millions)	7,136.0	7,971.0	8,630.0	13.6	11.7	8.3
INVESTMENT:						
Total ($ Millions)	1,521.1	1,812.4	1,916.0	10.3	19.2	5.7
Private Sector ($ Millions)	822.9	1,062.0	1,115.0	(0.9)	29.1	5.0
Public Sector ($ Millions)	698.2	750.4	801.0	27.1	7.5	6.7
PRIMARY INDUSTRIES:						
Agricultural Production ($ Millions)	1,104.0	1,060.0	1,146.0	4.7	(4.0)	8.1
Mineral Production ($ Millions)	530.3	511.9	532.8	9.0	(3.5)	4.1
Electrical Power Available (Kwh Millions)	15,630.0	15,271.0	14,293.0	1.1	(2.3)	(6.4)
OTHER INDICATORS:						
Housing Starts (Units)	7,845.0	9,339.0	9,410.0	(10.4)	19.0	0.8
Retail Trade ($ Millions)	2,192.4	2,407.9	2,509.1	10.2	9.8	4.2
Manufacturing Shipments ($ Millions)	2,580.5	2,748.2	2,928.6	13.2	6.5	6.6
Tourism Expenditures ($ Millions)	105.9	112.9	114.2	4.6	6.6	1.2
INCOMES:						
Farm Cash Receipts ($ Millions)	935.2	897.2	892.1	13.3	(4.1)	(0.6)
Total Personal Income ($ Millions)	5,881.0	6,535.0	7,125.0	17.8	11.1	9.0
Personal Disposable Income ($ Millions)	4,977.0	5,445.0	6,003.0	19.3	9.4	10.2
Average Weekly Wages and Salaries ($)	186.1	208.5	226.3	14.4	12.0	8.5
POPULATION: June 1st (000's)	1,013.6	1,021.5	1,031.3	0.6	0.8	1.0
LABOUR FORCE:						
Labour Force (Annual Average; 000's)	440.0	449.0	460.0	0.7	2.0	2.4
Employment (Annual Average; 000's)	420.0	428.0	433.0	(0.2)	1.9	1.2
Participation Rate (%)	60.8	61.2	61.6	—	—	—
Unemployment Rate (%)	4.5	4.7	5.9	—	—	—
CONSUMER PRICE INDEX: Winnipeg (1971 = 100)	137.4	149.3	161.4	12.4	8.7	8.1

SOURCE: Statistics Canada (CANSIM) and Manitoba Department of Finance

r = some data have been revised to accord with updated Statistics Canada information
p = preliminary

COMPARISON OF SELECTED PROVINCIAL TAX RATES — 1978[1]

Tax	Newfoundland	Prince Edward Island	Nova Scotia	New Brunswick	Quebec	Ontario	Manitoba	Saskatchewan	Alberta	British Columbia
Personal Income (% of basic federal tax)	58	50	52.5	55.5[2]	3	44.0	54.0[4 5]	53.0[5]	38.5	46.0
Corporation Income (% of taxable income)	14	10	12	9-12	12	9-12	11-15[6]	11-14	11	12-15
Corporation Capital Tax (% of taxable capital)	Nil	Nil	Nil	Nil	1/5	3/10	1/5[7]	Nil	Nil	1/5[7]
Retail Sales (%)	11*	8*	8*	8*	8*	7*	5*	5*	Nil	7*
Gasoline (cents per gallon)	27	21	21	20	19	19	18	19	Nil	17
Diesel (cents per gallon)	27	25	27	23	25	25	21	26.6	Nil	19
Cigarettes (cents per package of 25)	33.75	20	15	17.5	20	27.5	25	24	8	24
Hospital Insurance and Medical Services (annual premium)	Nil	Nil	Nil	Nil	Payroll Tax: 1.5% of income ($235 maximum)	$264 Single $528 Family	Nil	Nil	$92 Single $184 Family	$90 Single $225 Family

[1]So far as possible the rates reflect the 1978 Budget announcements of all provinces except Quebec. (Table updated April 14, 1978.)

[2]A general 3.0% tax reduction is in effect for 1978, but this does not reduce the basic rate.

[3]Quebec levies tax directly against taxable income unlike the other provinces. The "equivalent" Quebec rate is higher than the current Manitoba rate.

[4]This rate includes some 2.2 points which have been allocated to municipalities. The "net" rate for provincial purposes is 51.8%.

[5]These provinces apply surtaxes to high income earners.

[6]These rates include 1 point which has been allocated to municipalities. The "net" rates for provincial purposes are 10% and 14%.

[7]British Columbia and Manitoba provide an exemption for small businesses — those with taxable capital of under $500,000.

*These rates exclude rate reductions implemented during 1978.

The reductions are: 3 percentage points for 6 months in the four Atlantic provinces, Ontario and Manitoba and 2 percentage points for an extended period for Saskatchewan and British Columbia. No termination date for the British Columbia reduction was announced.

As of April 14, 1978, full information on Quebec's reduction plan was not available.

DETAILS OF TOBACCO TAX CHANGES

NEW TOBACCO TAX RATES — EFFECTIVE MAY 1, 1978

	OLD RATE	INCREASE	NEW RATE
CIGARETTES			
per cigarette	4/5¢	1/5¢	1¢
per package of 20 cigarettes	16¢	4¢	20¢
per package of 25 cigarettes	20¢	5¢	25¢
CIGARS			
retailing at 4¢ or less	1½¢	½¢	2¢
retailing at 5¢ to 6¢	2¢	½¢	2½¢
retailing at 7¢ to 9¢	3¢	1¢	4¢
retailing at 10¢ to 12¢	4¢	1¢	5¢
retailing at 13¢ to 15¢	5¢	1¢	6¢
retailing at 16¢ to 18¢	6¢	2¢	8¢
retailing at 19¢ to 21¢	7¢	2¢	9¢
retailing at 22¢ to 24¢	8¢	2¢	10¢
retailing at 25¢ to 30¢	10¢	3¢	13¢
retailing at 31¢ to 39¢	13¢	3¢	16¢
retailing at 40¢ to 48¢	16¢	4¢	20¢
retailing at 49¢ or more	20¢	5¢	25¢
OTHER TOBACCO PRODUCTS			
for every ½ oz. or part of ½ oz.	4¢	1¢	5¢
Or			
for every 25 grams or part of 25 grams	7¢	2¢	9¢

BUDGET PAPER

IMPROVEMENTS IN THE LEGISLATIVE ACCOUNTING SYSTEM OF THE PROVINCE OF MANITOBA

IMPROVEMENTS IN THE LEGISLATIVE ACCOUNTING SYSTEM OF THE PROVINCE OF MANITOBA

Among the Manitoba Government's major priorities is the implementation of extensive revisions in the provincial accounting system in order to provide Manitobans with more timely, useful, and frequent reports on the Province's financial situation.

It is the intention of the Government to improve review mechanisms by:

— issuing quarterly financial statements;

— publishing the Manitoba Public Accounts more promptly; and

— providing clearer and more comprehensive information in the Public Accounts.

Each of these measures is consistent with, and necessary to the Government's commitment to ensure greater accountability to the taxpayers of Manitoba.

Progress has already been made through the publication of quarterly financial statements for the six months ended September, 1977, and the nine months ended December, 1977. The Government also expedited the publication of the 1976/77 Manitoba Public Accounts to mid-November, 1977, the earliest date in many years.

Several other measures to make financial information more pertinent, informative and useful have already been adopted by the Government of Manitoba as well. Of considerable importance is the revision of report formats so as to disclose the **total** direct expenditures of the Province. This involves the Government's acceptance of an often-repeated recommendation of the Provincial Auditor that government budgetary expenditures be presented on a combined current and capital basis. This practice, common to most Canadian governments, eliminates many of the arbitrary elements of former presentations, such as allocating expenditures between the "Revenue" and "Capital" Divisions. The combined approach will enable the Government to show its constituents in a straightforward, simplified manner, **all** expenditures made on public programs and services, and **all** revenues received by the Government. Of course, data will be provided on a distinct basis to indicate expenditures which are of a lasting nature. The Manitoba Government believes that the adoption of the amalgamated format will greatly assist the public in obtaining precise information as to **total** government expenditures.

A major concern in recent years has been the ever-increasing size and complexity of the provincial Public Accounts. This parallels to some extent the growth of provincial responsibilities in the last quarter-century, but it can also be traced to the proliferation of accounting techniques and mechanisms utilized in the funding of public services and programs. The result has been that the Public Accounts are virtually meaningless to anyone who is not a highly-trained accountant or a public finance expert.

To resolve this problem, the Department of Finance has undertaken a thorough review of existing accounting policies, practices and procedures in order to develop a comprehensive summary of options for the improvement of all elements of the system. From this, the Government acccepted those proposals which they felt were designed to strengthen the Parliamentary principles which govern the legislative accounting review mechanism.

It is a fundamental right of the Legislature to control all raising and spending of money. Thus, the Legislature must retain, as a matter of principle, the responsibility of

examining and debating the Government's expenditures within the applicable fiscal year. Once the Legislature's consent is obtained, the Public Accounts should record simply, clearly, and precisely how actual expenditures conform to the intentions of the Legislative Assembly.

The Government proposes to simplify the Public Accounts presentation initially by:

(a) combining the Capital and Revenue Divisions, as has been done in the quarterly financial statements and the Main Estimates of Expenditures for 1978/79;

(b) consolidating the various surplus accounts; and

(c) abandoning the practice of establishing special accounts within the Consolidated Fund where there is no true trust involved.

The Province now carries buildings, highways and other fixed assets purchased out of capital division at a value equal to the amount of outstanding debt assigned to them. This practice has several weaknesses:

(1) if similar assets are purchased out of current revenue, they are not recorded at any value but are written-off in current operations as an expense, e.g., the construction of highways from the current appropriation;

(2) the value of the assets shown on the balance sheet do not represent either actual historical cost or current replacement value, but only the value of the outstanding debt assigned to them;

(3) the fixed assets of the Province are not income-producing assets per se as are investments in fixed assets which industry might make. Industry would record the original value of the assets and depreciate to recognize the cost of the asset consumed each year.

The Province intends to reduce its existing fixed assets to nominal value and in future to write-off all fixed assets when purchased. It will then be possible to assess each year what the government has spent on the acquisition of all fixed assets, without the confusion of the meaningless balances shown on the balance sheet.

Other capital assets presented on the balance sheet of the Province consist of:

(1) Loans and Advances,

(2) Investments,

(3) Accounts Receivable, and

(4) Conditional and Unconditional Grants.

These assets are recorded at values which may have been reasonable at the time they were made, but which are often not reflective of the present situation.

All of the Unconditional Grants are set up at a value equal to the amount of outstanding debt assigned to them. We propose these grants be written off as an expenditure each year and not shown on the balance sheet.

The loans and advances, investments and accounts receivable can fluctuate in value with changing circumstances. For instance, an investment or an advance made to a corporation which has suffered serious financial setbacks may no longer be as valuable as it once was. In the future, the Province intends to review its loans, advances, investments and accounts receivable each year based on the financial situation existing at that time. This is similar to the practice followed in the private sector. A provision would be made by the Minister of Finance based on his best assessment of the current realizable value of

such assets — subject, of course, to the Provincial Auditor's review. When the asset is finally deemed to require a write-off, the Legislature will be asked to vote on the matter.

Another major problem encountered in the financial review and precipitated by recent developments is the need for new methodology in regard to accounting procedures for debt payable in foreign currencies.

With increasing instability in foreign exchange rates, the accounting for debt payable in foreign currencies poses new problems both in the public and private sectors. The Canadian dollar value of the currencies borrowed may differ significantly from the Canadian dollars required for repayment. Accounting choices include:

(1) recognizing the differences in the accounts of the year in which the debt is repaid;

(2) recording the difference in the year's accounts in which the fluctuation occurs;

(3) amortizing each year's difference over the remaining life of the debt.

The last choice is favoured since it will minimize year-to-year fluctuations in financing costs. This is the practice currently recommended by the Canadian Institute of Chartered Accountants for the private sector.

Although Manitoba keeps its accounts essentially on a cash basis, the Financial Administration Act permits cheques issued after the year-end to settle billings applicable to the year to be charged to the prior year's appropriations. Where spending authority has been used up, or where a supplier's invoicing procedures are delayed, such expenditures are not recorded until the following year. This means that the current year's expenditures are understated. It is proposed that all accounts payable be recorded, with amounts exceeding the current year's authority to be charged against the next year's accounts. This will ensure that the year's expenditures are currently recorded, and cause departments to take corrective action to reduce their expenditures in the following year to the extent of any over-expenditure.

In general, these proposals reflect and conform to the latest accounting concepts and principles being utilized in the public sector. In fact, these changes will make Manitoba's statements more comparable with other jurisdictions. Where applicable, the proposals are also compatible with accounting procedures in the private sector.

The Manitoba Government believes that its financial reporting responsibility will be more fully realized if improved information is provided for the legislative review of the Estimates. To this end, the Government will conduct, through the Legislature, an ongoing review of the form and contents of the Estimates.

RECENT STATEMENTS

ON FISCAL AND

ECONOMIC POLICY

GOVERNMENT OF MANITOBA

NOTES FOR

AN OPENING STATEMENT

TO THE

FEDERAL-PROVINCIAL CONFERENCE OF FIRST MINISTERS

THE HONOURABLE STERLING R. LYON, Q.C.

PREMIER OF MANITOBA

OTTAWA

FEBRUARY 13 – 15, 1978

NOTES FOR AN OPENING STATEMENT TO THE FEDERAL-PROVINCIAL CONFERENCE OF FIRST MINISTERS

Prime Minister:

When you first suggested holding this conference . . . you warned that Canadians should not have what you referred to as "excessive expectations" of what might be achieved at a gathering like this.

With respect . . . I would suggest that there are few in Canada today who have "excessive expectations" of this or any other gathering of governments.

Instead . . . I believe that people across Canada are realizing that big government... with its high taxes and lavish spending . . . far from offering the solution to our problems . . . is really among their principal causes.

And there is very real skepticism among a growing number of Canadians as to whether or not government can be redirected or controlled in a way that will truly reflect public opinion.

Canadians do not have any sense that they have asked for or even approved the doubling and re-doubling of public spending that has occurred over the past decade.

Canadians have seen their opinions routinely disregarded by government on matters as diverse as the administration of federal bilingualism policy, metric weather reports and capital punishment.

And they sense that government is out of control . . . that it has somehow become estranged from the community to which it ought to provide leadership and from which it should derive its formative thrusts.

Prime Minister, I speak for the newest government in Canada: my colleagues and I have been in office for something less than four months . . . and so we may perhaps be better able than some to remember just what government and the operations of government look like from the outside.

When we were elected . . . we received a clear mandate from the people of Manitoba . . . to bring government in our province back under control.

We began with a provincial deficit that was 5 times bigger on current account than we had expected. We began with a system of taxation that was not competitive with the tax systems of other provinces.

We have instituted a system of firm controls of spending. We have established a special Task Force on Government Organization and Economy using the skills and the knowledge of volunteers from the private sector to supplement the ability of Manitoba's public service in an effort to find more efficient methods of operation for every aspect of government and every Crown agency in Manitoba.

And . . . at a special Session held last fall . . . we began the task of bringing Manitoba's taxes back into line: we abolished the succession duty. We abolished the gift tax. We abolished a tax on privately-held mineral rights that had been brought in by the previous government. Effective January 1, as a beginning, both the personal income tax and the small business corporate income tax rates have been reduced by 2 points.

When you visited Manitoba in December, Prime Minister, you applauded these policies of spending restraint and tax reduction and said they were consistent with the policies of your own government.

If that is so . . . then I would suggest that the next federal Budget should include genuine restraint and a clear commitment to fiscal responsibility. At a minimum . . . we would expect it to include a significant reduction in the rate of growth of federal spending . . . a reduction in the massive federal deficit . . . and federal tax reductions.

I believe that is what the people of Canada want from their federal government. I believe that such measures are among the most effective way government can respond to the economic problems we face today.

I know that it can be argued that this conference should talk about the long term . . . or the medium term . . . instead of talking about the next few months. But any long term solution has to start with immediate policy. And it must start with an end to the ambiguity that has come to colour Canada's attitude towards private investment and the private sector generally.

Just over two years ago . . . Prime Minister . . . you made a somewhat controversial statement about the failure of the free market system . . . implying, if not saying, there was no way it could be made to work.

More recently . . . your Minister of Finance has been talking of the need for investor confidence in the private sector and our need as a nation to rely on the market economy system to provide the jobs and investment necessary to turn around our economy.

Which is it to be? Is it any wonder that investors small and large in this country are confused and uncertain?

I can speak for the Government and people of Manitoba: we believe in private enterprise, in private initiative; we believe it is the private and voluntary sector of our economy that creates wealth and provides us with the means to reach social objectives and to extend social justice. Because we believe that clearly . . . we have a firm and consistent basis for our own economic policies.

With respect, Prime Minister . . . the ambiguity of your position of 1975 is reflected in the ambiguity of your government's policies and in the cool response manifested by investors here and abroad to the uncertainties they perceive in our national aims and objectives.

Surely we can best work together . . . at the provincial and federal level . . . if we can begin with a set of agreed-upon objectives.

As a beginning . . . might I suggest that we agree that all governments must move to restore confidence in the private, wealth creating sectors of our economy.

And surely we can agree that **where** investment is going in Canada makes **as big a difference** as **where** the investment money is coming from: speaking for the West and . . . I suspect for the Maritimes and Newfoundland . . . we need investment capital — and the dubious notion which inspired such ill conceived structures as FIRA should be set aside in favour of contemporary and realistic concepts and attitudes toward much needed investment capital.

And surely we can agree on the need for a restoration of control over government. Surely we can draw up and agree to a stringent and explicit set of guidelines for government restraint and financial management.

Can we not agree . . . as an objective . . . that we need to reverse the "de-industrialization" of our economy. The number of service jobs . . . including particularly government jobs . . . as a proportion of total employment in Canada is simply too high for economic health.

And surely . . . as part of our commitment to sensible efforts to create wealth . . . we can agree increasingly to base our social services on the "need" principle in place of the principle of universality.

The list could go on . . . because it is a list . . . that reflects the basic economic beliefs of the people of Canada.

And in addition to those general agreements . . . I believe we should be able to agree on some specific actions at this conference.

Let me speak of three specific areas I believe we can agree upon.

First — I believe we can agree on the need to review our system of taxation of resource industries specifically with the objective of removing the long term disincentive effects of taxation tinkering and other structural uncertainties. Employment in mining . . . for instance . . . is beginning to decline in Canada. The loss in foreign earnings . . . the loss in employment and income opportunities for Canadians . . . will be crippling unless that decline is reversed. We cannot change world wide economic conditions . . . but . . . through our taxation policies . . . indeed through updating our attitudes toward mining in general . . . we can preserve jobs for Canadians. We can build on the technical lead Canada has in the extractive industries. And we can take the first steps in that process at this conference if we merely affirm (1) that we don't wish to expropriate their enterprise; and (2) that we do not intend to tax away every dollar of profit they earn in a highly competitive world market.

Secondly . . . I believe we can agree at this conference that the provincial governments of Canada should have a clear, formal and direct voice in the development of monetary policy in Canada.

I believe provincial participation in this area . . . not merely in setting growth targets for the money supply but in assessing the regional impacts of monetary policy . . . is overdue in Canada. We know . . . for instance . . . that changes in interest rates affect different parts of the country in different ways. Surely it is time we had a formal system to monitor those effects . . . and to include them in the process by which monetary policy is set.

And on a related matter of monetary policy, Prime Minister . . . I am told that about a year ago all 10 provinces asked that consideration be given to permitting provincial securities to be utilized as secondary reserves by the chartered banks . . . and that the previous federal Minister of Finance undertook to consider the idea. I would hope that action on this proposal could be taken as part of the pending changes in The Bank Act.

The third area where I believe we can take specific action here is to establish a Capital Issues Committee to monitor all foreign borrowings of all governments . . .

provincial, federal and municipal . . . and all Crown corporations or other government agencies. The scope of the potential effects of borrowing decisions made without complete information as to other borrowing plans across Canada is simply staggering. The kind of informal communication that goes on now is not adequate.

The three specific items that I believe we can agree upon then are:

a deliberate effort to deal reasonably with the taxation of resource industries;
a deliberate effort to involve provincial as well as federal views in the establishment of monetary policy; and
a deliberate effort . . . since we are to continue to have to depend on foreign borrowing . . . to develop the kinds of information and information exchanges that will help us to borrow effectively.

We can make specific agreements on those matters at this conference, Prime Minister . . . and that will be useful.

But the real efforts that must be made to deal with the current economic problems that plague Canada today are really only two, Prime Minister.

The first must be a commitment to a private market economy system. A clear commitment, from your government as well as from those of the provinces that private ownership, private initiative and the accumulation of private investment capital must continue to be the engines that drive our economy.

And the second must be the redirection of government – including the imposition of real restraints on the growth of government's power and government's spending . . . to make that commitment effective.

Governments have built the basic mechanisms of redistribution in Canada: we do not need more vast and costly universal schemes. We need instead to invigorate the kind of economic climate and the kind of private economic activity that will create the wealth . . . the opportunities . . . and the challenges our people have a right to expect – and indeed to demand.

Government cannot make all that happen. But government in Canada can get out of the way and let the resourcefulness and ability of our people make it happen.

MANITOBA
DEPARTMENT OF FINANCE

HONOURABLE DONALD W. CRAIK

MINISTER OF FINANCE

GOVERNMENT OF MANITOBA

NOTES FOR AN OPENING STATEMENT

ON THE

ECONOMIC AND FISCAL SITUATION

FEDERAL-PROVINCIAL CONFERENCE OF

MINISTERS OF FINANCE

OTTAWA: JANUARY 26 and 27, 1978

NOTES FOR AN OPENING STATEMENT ON THE ECONOMIC AND FISCAL SITUATION

Mr. Chairman:

I want to thank you and the other Ministers around the table for the good wishes you have extended to me and to the other members of our new government since we took office in late October. I welcome the opportunity to join you in discussing common problems and in attempting to find solutions through cooperation and joint action, wherever possible.

This is a difficult time for our economy and for every one of our governments. Despite predictions of some improvement in real growth in 1978, Canada continues to face high unemployment, sluggish investment, significant underutilization of industrial capacity, continuing concern about a possible resurgence of inflationary pressures, and a number of other problems which have deeply undermined consumer and business confidence in our future.

Efforts by governments to deal with these problems in recent years — by undertaking major new expenditure programs, and by incurring massive deficits — have had little positive impact. In fact, the situation seems to have worsened, year by year.

Now, at a time when action is most essential, the majority of governments find themselves quite literally boxed in — with minimal budgetary flexibility, and with huge continuing expenditure obligations for programs which, in many cases, aren't doing anything to help get at the root causes of our current difficulties.

In broad terms, this was the basic concern our party presented to the people of Manitoba in seeking their support in the last election. We argued that the solution to our province's economic difficulties — and to the country's as a whole — must be found through a reversal of the trend toward bigger government, uncontrolled spending, larger deficits, higher taxes, and increased interference in the marketplace. The very strong and gratifying mandate we received in the election showed just how concerned about these trends the citizens of our province have become, and I am certain the same is true of most other Canadians as well.

In many respects, I think the average Canadian has been a long way ahead of governments in appreciating the seriousness of this country's economic problems. In the last several years, people have seen inflation eat away their savings and real income gains; they have seen their energy costs go up substantially; they have watched their children leave our costly educational institutions and enter a job market for which they have been inadequately trained and in which there is no place for them. Increasingly, people are coming to recognize that difficult and major adjustments have to be made; that expectations must be lowered; that Canadians have been living beyond their means; that living standards cannot be expected to increase as fast as they have in the past; and that there are very real limits on the degree to which governments can or should be expected to resolve every conceivable social or economic difficulty.

We believe it is up to those in government to recognize these facts as well. We must get our own houses in order so that when problems arise which we can and must take on — such as the economic difficulties facing us now — we will have adequate flexibility to respond positively and quickly.

The overall attitude of governments must change. It is easy to talk about restraint; it is much more difficult to apply it in a way which is more than superficial. But, **real** restraint — not lip service — must start to be practiced at every level if we are to get the economy moving again.

Of course, I don't mean that governments should make wholesale, indiscriminate cuts over the entire range of their programming. That could be just as harmful as uncontrolled spending. What is needed is **selective** restraint — a far more stringent evaluation of the usefulness of existing programs, and a much more responsible attitude to the commitment of taxpayers' money for new measures.

We in Manitoba have seen disturbing evidence in the last few months of what can happen when adequate restraint isn't practiced. The deficit position facing our government when we took office was found to be totally unacceptable, and far larger than had been reported to the public. While a portion of the deficit could be attributed to downward revisions in federal income tax collection estimates, a great deal of it was the result of inadequate expenditure controls — a problem which left us particularly vulnerable to the impact of federal estimate revisions.

In the last few months, however, we have been able to establish effective interim controls, and there have already been significant results — including a reduction of staff, largely through attrition. For the longer term, we are awaiting the results of an intensive examination of virtually all aspects of governmental and Crown corporations' operations by a special Task Force on Government Organization and Economy composed of both private and public sector representatives. We have been able to secure the participation and advice — on a voluntary basis — of a number of extremely competent and experienced people from business, labour, the professions, and the academic world — and we have had excellent cooperation from the civil service. Some of the results of their work will be reflected in our 1978/79 Budget and, although it won't be easy to overcome our current deficit problems, we are hoping that our first Budget will show a major improvement in our financial position.

In general, the outlook for the Manitoba economy for 1978 is quite similar to that predicted for Canada as a whole. A modest increase in real growth is expected, though it probably will be somewhat lower than the national average. The agricultural and mining sectors are of particular concern to us, and we are hopeful that the discussions at the First Ministers' Conference will lead to new policies to improve prospects in these important industries.

Our government's own efforts to encourage economic recovery have already begun. In addition to the expenditure restraints I mentioned before, we have undertaken a number of tax reduction measures to help restore consumer and investor confidence. We have eliminated succession duty and gift taxes, removed the mineral acreage tax, and reduced income tax rates for individuals and small business. A detailed review of provincial taxation is now underway, and we hope to be in a position to announce further reforms in our spring Budget.

In this connection, I was pleased to see reports that the federal government will also be introducing a Budget early in the spring, and that it is likely to reflect the outcome of the First Ministers' Conference.

This is a promising development. The contents of the spring federal Budget could be regarded as a good test of the ability of the Government of Canada to follow up

various recommendations and proposals both for improving medium-term prospects and for dealing with the immediate problems facing us in 1978.

Along with other provincial governments, we in Manitoba have been quite concerned at the hurried and somewhat disorganized pace with which preparations for the First Ministers' Conference have had to proceed. We have felt that the need to develop a medium-term strategy to deal with productivity, the competitiveness of the Canadian economy, youth unemployment, industrial relations, and other matters is so important that it requires far more work on a joint basis than has been possible up to now – or will have been possible by the time the First Ministers meet.

At the same time, I should say as well that we are aware that there is probably a great deal of scepticism in the public's mind about the potential value of the medium-term exercise. Suggestions have been made that it is simply an excuse for doing nothing about short-term problems in the national economy and that, once the next federal election is over, it will simply be forgotten. Many Western Canadians remember the 1973 Western Economic Opportunities Conference and the encouraging rhetoric that surrounded that meeting – a meeting which dealt, by the way, with many of the same structural and sectoral problems now being considered during the current round of Ministers' meetings. Five years after WEOC, a large number of these problems – including freight rates, inadequate industrial development in the West, and so on – still have not been resolved.

So, as I said, the spring federal Budget could be a good initial test of the value of the exercise and of the federal government's attitude towards it.

I would hope, for example, that it will reveal evidence of real restraint – sizeable cuts in non-essential expenditures which could make it possible to consider a further reduction in taxes for the year ahead to complement the limited and temporary reductions announced in last October's mini-budget. If a serious effort is made, such cuts should be possible without a deterioration in the federal deficit position. We offer our cooperation in reviewing joint programs where waste and bureaucratic absorption of funds limit value to intended recipients.

In this connection, it now appears likely that the various sectoral conferences will expose concerns about a wide variety of tax policy matters, ranging from resource taxes – and the non-deductibility of provincial royalties – to agriculture and manufacturing, and the impact of capital gains taxation, the effect of inadequate allowances for inflation, and so on. To be of maximum assistance to First Ministers in their examination of medium-term problems, the most obvious course of action would be for us, as Finance Ministers, to draw together all the taxation suggestions and concerns arising out of the sectoral conferences and prepare a report on them. There isn't likely to be time for this, however, so perhaps the best alternative would be for us to undertake an immediate follow-up of all tax matters which are left unresolved after the First Ministers' meeting. Such a review should be completed, if possible, in time for the results to be reflected in the spring federal Budget.

Later today, when we reach the agenda item on the medium-term outlook and the preparations we can make for the First Ministers' Conference, I will be making some other suggestions concerning:

- the need for greater provincial input in the consideration of monetary policy issues;

- improved coordination of foreign borrowing; and
- the desirability of more adequate analysis of the varying regional impact of federal fiscal policies.

It is argued increasingly that the provincial-local sector in total, because of its increased size and responsibilities, now has as much or more potential influence on the economy as the federal government. Given the different problems and priorities of the various provincial and local governments across the country, this is clearly a debatable point, but our administration – and I am sure all other provincial governments – are anxious to cooperate fully in the development of more effective economic policies for Canada. While the federal government must continue to provide leadership, we agree with the Prime Minister's recent statement that a "new approach" is needed for federal-provincial economic and fiscal relations. We believe that provincial concerns must receive greater recognition than they have in the past. I hope that this meeting will mark the beginning of such a new approach.